

**CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (I-Bank)
501(c)(3) REVENUE BOND FINANCING PROGRAM**

STAFF REPORT

EXECUTIVE SUMMARY

Applicant:	Saddleback Valley Christian also known as Saddleback Valley Christian Schools (Borrower or SVC)	Amount Requested:	Not to exceed \$20,000,000 TE \$1,000,000 Taxable
Applicant Description:	The Borrower, a California nonprofit religious corporation, is an independent, coeducational private Christian school serving students in preschool and grades K to 12.	Date of Board Meeting:	December 14, 2010
		Resolution Number:	10-39
		Type of Bonds:	New Issue
Project Site:	26333 Oso Rd, San Juan Capistrano, CA 92675	Prepared by: Tara Dunn	
Project Description:	The project (Project) involves refinancing the cost of acquiring, constructing, rehabilitating, improving, and general development of the Borrower's facilities; and financing additional improvements to the Borrower's facilities.		
Uses of Bond Proceeds:	Bond proceeds will be used to pay the costs of the Project including issuance costs of the bonds.		
Public Benefits:	The Project will enable the Borrower to increase its enrollment by 600 students providing additional educational services to the community. The Project is estimated to result in cash flow savings of over \$1.5 million over the next 10 years and reduce SVC's operating costs. The increased cash flow will support an expansion of services to its students.		
Financing Structure:			
Type of Issue:	Publicly-offered variable-rate securities in authorized denominations of \$100,000 or any integral multiple of \$5,000 in excess thereof.		
Tax Status:	Tax-exempt 501(c)(3) bonds in the amount of not to exceed \$20,000,000 and taxable bonds in the amount of not to exceed \$1,000,000.		
Term:	Not to exceed 30 years.		
Credit Enhancement:	Direct-pay letter of credit from East West Bank supported by a standby letter of credit from Federal Home Loan Bank of San Francisco.		
Credit Rating:	Expected rating is AAA/A-1+ from Standard & Poor's Ratings based on the credit rating of Federal Home Loan Bank of San Francisco.		
Est. Sources of Funds:		Est. Uses of Funds:	
Par amount of the tax-exempt bonds	\$20,000,000	Refinance prior construction costs	\$15,318,085
Par amount of the taxable bonds	1,000,000	Phase 2 Project Costs	4,766,915
		Costs of Issuance	885,000
		Contingency	30,000
TOTAL SOURCES	\$21,000,000	TOTAL USES	\$21,000,000
Financing Team:			
Issuer's Special Counsel:	Hawkins, Delafield & Wood		
Bond and Disclosure Counsel:	Kutak Rock LLP		
Underwriter:	Gates Capital Corporation		
Trustee:	U.S. Bank National Association		
Financial Advisor:	Northmarq Capital		
Staff Recommendation:	Staff recommends approval of Resolution 10-39, for an amount not to exceed \$20,000,000 of tax-exempt 501(c)(3) bonds and \$1,000,000 of taxable bonds for Saddleback Village Christian.		

BACKGROUND AND HISTORY

Saddleback Valley Christian, a qualified 501(c)(3) non-profit religious corporation, also known as Saddleback Valley Christian Schools, is an independent coeducational, Christian day school serving students in preschool and grades K through 12.

SVC began instruction in 1997 with an initial enrollment of approximately 100-125 students. SVC's current enrollment is approximately 900 students and SVC anticipates increasing its enrollment with an addition of 125 students per year over the next five years.

SVC provides a comprehensive college preparatory curriculum integrated with the traditions and nondenominational Christian doctrines and is open to students of all faiths. SVC is accredited by Western Association of Schools and Colleges.

SVC employs approximately 70 full-time faculty and staff. The average class size is approximately 20 students, with a student-to-teacher ratio of 12:1. SVC's academics are integrated with athletics, the arts, mission and ministry opportunities with a Christian perspective to develop the whole child. Annual tuition ranges from \$6,000 to \$8,200 depending on the grade. Approximately 20% of families receive financial aid assistance.

SVC anticipates future growth from enhanced educational programs such as its International Program, individualized programs for children requiring academic assistance and on-line classes and testing for home-schooled students.

SVC is located on 70 acres, a portion of which is designated as creek bed natural habitat. Of the 70-acre campus, approximately 60 acres can be developed. SVC's current facilities are situated on 14 acres located on the eastern side of the property. The majority of the western side is expected to be zoned for residential development and a future expansion of the SVC high school facility.

GOVERNANCE AND MANAGEMENT

SVC's Board of Directors (School Board) is comprised of 5 members and meets 4 times per year. A listing of the SVC's Management and School Board is included in Appendix A.

PROJECT DESCRIPTION

The Project involves refinancing the cost of the development, initial construction and subsequent expansion of SVC's current school facilities.

As previously noted, SVC began instruction in 1997 with approximately 100-125 students in grades K-8 housed in modular units. In 2008, Phase I of SVC's three-phase development process was completed which included a full-size gymnasium/multi-purpose building, and a 44,000 square foot education facility that serves as the main academic building. The playground areas were also expanded to accommodate a growing enrollment (see Appendix B – Project Photos and Drawings).

The Project also includes financing the planned construction of Phase 2 of campus building improvements. Phase 2 will involve the construction of approximately 24,000 square feet of classroom and administrative office space to serve as the new Junior High/High School Education Wing to accommodate up to 600 students (See Appendix B – Project Photos and Drawings).

Taxable bonds will be used for a portion of the Project to finance costs of issuance above the 2% allowed under Federal tax law and to refinance a working capital loan.

FINANCING STRUCTURE

The Borrower is requesting approval for the issuance of tax-exempt bonds (\$20 million) and taxable bonds (\$1 million) (Bonds) in an amount not to exceed \$21,000,000. The Bonds will be issued pursuant to an indenture between the I-Bank and U.S. National Bank Association, as Trustee, (Indenture) and a loan agreement between the I-Bank and the Borrower (Loan Agreement).

Payment of principal and interest on the Bonds will initially be enhanced by a direct pay letter of credit (LOC) provided by East West Bank supported by a standby letter of credit (Standby LOC) provided by Federal Home Loan Bank of San Francisco to be executed simultaneously with the issuance of the Bonds. It is expected that the Bonds will carry a rating of AAA/A-1+ from Standard & Poor's based upon the credit rating of the Federal Home Loan Bank of San Francisco.

In no event shall the Bonds constitute a pledge of the faith and credit of the State or any political corporation, subdivision or agency of the State, and neither the State nor any political corporation, subdivision or agency of the State shall be liable to make any appropriation for the repayment of the Bonds. The Bonds constitute a special obligation of the I-Bank, payable solely from revenues consisting of repayments of the loan provided for in the Loan Agreement.

ELIGIBILITY FOR TAX-EXEMPT CONDUIT BOND FINANCING

SVC is a private independent nondenominational Christian day school. Bond counsel (Kutak Rock LLP) was asked to provide a memorandum of advice to the I-Bank discussing the Bond's compliance with applicable state and federal constitutional requirements and court rulings with respect to the issuance of tax-exempt bonds for a private religious school.

Bond counsel obtained facts from the Borrower and provided the requested advice. In sum, bond counsel concluded that the proposed use of the proceeds of the Bonds meet the tests for validity articulated by the California Supreme Court (Court) in California Statewide Communities Development Authority v. All Persons Interested (2007) 40 Cal.4th 788 (CSCDA), the most recent California case on the issue of tax-exempt financing for private religious schools. In-house counsel has reviewed and concurs with the conclusion reached by bond counsel.

CSCDA is the Court's articulation of conditions under which tax-exempt bond proceeds may be used to finance a project for a private religious school without violating California's

Establishment Clause (Cal. Const. Art XVI, sec.5) or the U.S. Constitution First Amendment's prohibition of "establishment of religion." The Court's four part test for compliance with the California Constitution is summarized as follows:

1. The bond program must serve the public interest and provide no more than an incidental benefit to religion. In order to determine whether this first part of the four part test is satisfied, the Court created an additional two part test:
 - a. The school that is the subject of the revenue bond financing must provide a broad curriculum in secular subjects (which the Court notes was not just a few, but several subjects) and
 - b. The information and coursework used to teach secular subjects must be neutral with respect to religion (meaning while the classes may contain information about religion, the courses must not advocate or oppose any religion).
2. The bond program must be available to both secular and sectarian institutions on a equal basis.
3. The bond program must prohibit use of bond proceeds for religious projects.
4. The bond program must not impose any financial burden on the government.

The Court also requires that (a) bond proceeds cannot be used for facilities that are used for religious purposes, (b) the financing agreements must prohibit use of financed facilities for religious purposes, and (c) the government is to be paid its costs for the financing. Finally, the Court notes that where a financing meets the Court's four part test related to the California Constitution, the financing will necessarily meet the two part test developed for review of the financing under the U.S. Constitution.

PUBLIC BENEFITS

The Project will enable the Borrower to increase its enrollment by 600 students providing additional educational services to the community.

The Project will also enable the Borrower to expand financial assistance and programs such as the International Program and individualized programs for children requiring academic assistance.

The Project is estimated to result in cash flow savings of over \$1.5 million over the next 10 years and reduce SVC's operating costs. The project provides for additional student capacity over the next five years adding to SVC's annual revenue. The increased cash flow resulting from increased revenue and cost savings will support an expansion of services to its students.

The Bonds will allow the Borrower to take advantage of a provision (due to expire December 31, 2010) of the federal American Recovery and Reinvestment Act (ARRA) permitting Federal Home Loan Banks to issue standby letters of credit in support of conduit revenue bonds.

OTHER PROJECT DATA

PERMITS AND APPROVAL	
Required?	<input checked="" type="checkbox"/> NO <input type="checkbox"/> YES, Describe:
TEFRA	
Date of TEFRA	December 14, 2010 and December 16, 2010
Publications	<i>The Sacramento Bee</i> <i>The Orange County Register</i>
Oral/Written Comments Received	<input type="checkbox"/> NO <input type="checkbox"/> YES, Explain: No comments have been received to date. Although no comments are expected, should any comment received at the December 16th hearing raise concern, staff will bring the Project back to the Board.
LEGAL QUESTIONNAIRE	
Completed?	<input type="checkbox"/> NO <input checked="" type="checkbox"/> YES
Issues?	<input type="checkbox"/> NO <input checked="" type="checkbox"/> YES, Explain: Given the religious nature of SVC's operation, the financing needed to be reviewed for compliance with constitutional limitations.
ELIGIBILITY REVIEW	
Borrower meets all of the I-Bank eligibility criteria? <input checked="" type="checkbox"/> YES <input type="checkbox"/> NO	<ol style="list-style-type: none"> 1. The Project is in the State of California. 2. SVC is capable of meeting its obligations incurred under the proposed loan agreement, and, in particular as to its loan repayment obligations which secure the Bonds, based upon SVC's ability to satisfy the requirements imposed by East West Bank, as the provider of a direct pay letter of credit. 3. Payments to be made by SVC to the I-Bank under the proposed loan agreement are adequate to pay the current expenses of the I-Bank in connection with the financing and to make all the scheduled payments on the Bonds. 4. The proposed financing is appropriate for the Project. 5. SVC has represented that the Project is consistent with any existing local or regional comprehensive plans.
The Project meets the Policies and Procedures for Conduit Revenue Bond Financing for Economic Development Facilities established as guidelines for I-Bank Staff by the Board: <input checked="" type="checkbox"/> YES <input type="checkbox"/> NO	
INDUCEMENT CERTIFICATE	
Completed?	<input type="checkbox"/> NO <input type="checkbox"/> YES Certificate No.: <input checked="" type="checkbox"/> N/A Date:

RECOMMENDATION

Staff recommends approval of Resolution 10-39, for an amount not to exceed \$20,000,000 of tax-exempt 501(c)(3) bonds and \$1,000,000 of taxable bonds for Saddleback Village Christian.

APPENDIX A – SVC's MANAGEMENT AND SCHOOL BOARD

Management	
Bruce Harbin	President
Edward Carney	Vice President/Administrator
Mike Henjum	Principal, Jr/Sr High
Lori Jensen	Principal, Elementary
Rod Markum	Vice Principal, Jr/Sr High
Shirley Harbin	Academic Dean

Board of Directors	
Bruce Harbin	Chairman
Edward Carney	Vice Chairman
Stephen Esslinger	Secretary
Brad Newell	Member
Richard Andrade	Member

APPENDIX B – PROJECT PHOTOS AND DRAWINGS



Aerial view of total SVC property.



Overview showing SVC's current facilities and location of Phase 2.



Westerly view of existing classroom building built in 2008 (Phase 1).



Northeasterly view of existing classroom building built in 2008 (Phase 1).



Conceptual plans of Phase 2, first floor (above) and second floor (below).

